

PUBLIC DISCLOSURE

October 21, 1997

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

The Terrace Bank of Florida
06121515

Temple Terrace, Florida

Federal Reserve Bank of Atlanta
104 Marietta Street, N.W.
Atlanta, Georgia 30303

NOTE: This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to the institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of The Terrace Bank of Florida prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of October 21, 1997. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

INSTITUTION'S CRA RATING: This institution is rated Satisfactory.

The Terrace Bank of Florida was assigned a satisfactory rating because its loan-to-deposit ratio is reasonable and because a majority of its loan originations are within its assessment area. Also, given the bank's resources, size, and location, loans reflect a reasonable penetration among businesses of different sizes. However, a lack of lending to businesses in low-income census tracts was noted in the sample of loans reviewed. No evidence of illegal discrimination was detected during the examination.

DESCRIPTION OF INSTITUTION

The Terrace Bank of Florida is located in the Temple Terrace area of northern Hillsborough County, with its main banking office located approximately 10 miles north of downtown Tampa, Florida. The bank had total assets of \$65.7 million as of June 30, 1997, and operates two additional banking offices in northern Hillsborough County. The newest office opened on September 22, 1997. The Terrace Bank of Florida is a subsidiary of Pilot Bancshares, Inc., a one-bank holding company. The bank received a satisfactory CRA rating at its previous evaluation as of April 15, 1996.

The composition of the loan portfolio according to the June 30, 1997 Consolidated Reports of Condition and Income is as follows:

LOAN TYPE	PERCENTAGE
Construction and development	2.9%
Secured by one- to four-family dwellings	15.2%
Other real estate:	
Multifamily	6.6%
Nonfarm nonresidential	39.0%
Commercial and industrial	21.0%
Loans to individuals	14.8%
All other	0.5%
Total	100.0%

The above table shows that loans secured by commercial real estate and other business-purpose lending represent approximately 60 percent of the bank's outstanding loans. At present, the bank is primarily a business-purpose lender, as noted from the bank's recent loan production reports. These reports reflect the character of the bank's lending, both in terms of units and dollar amounts. As observed in the above table, the bank has been an active lender, though to a lesser extent, in other areas such as residential and consumer lending. The bank remains an active lender for these types of credit.

DESCRIPTION OF ASSESSMENT AREA: PORTION OF HILLSBOROUGH COUNTY, FLORIDA

The bank's assessment area includes 48 census tracts in north central Hillsborough County. Hillsborough County is part of the Tampa-St. Petersburg-Clearwater Metropolitan Statistical Area (MSA). According to the 1990 Census, the total population of the assessment area was 206,530, which represented approximately one quarter of Hillsborough County's population of 834,054.

The median family income of the bank's assessment area was \$26,685, which was below the county's median family income of \$33,645 and the MSA's median family income of \$31,244. Low-income census tracts are defined as tracts having a median family income of less than 50 percent of the MSA's median family income level. Moderate-income tracts have a median family income of at least 50 percent but less than 80 percent of the MSA's median family income level. The assessment area contains 8 low-income tracts, 16 moderate-income tracts, 17 middle-income tracts, and 7 upper-income tracts. The chart below summarizes the distribution of the assessment area's residents by the income level of the census tract in which they live.

CENSUS TRACT TYPE	POPULATION	PERCENTAGE OF TOTAL POPULATION
Low-income	24,563	11.9%
Moderate-income	61,525	29.8%
Middle-income	74,811	36.2%
Upper-income	45,631	22.1%
Total	206,530	100.0%

According to the 1990 Census, 17 percent of the families in the assessment area were below the poverty level. In the eight low-income census tracts, approximately 47.5 percent of families were below the poverty level. Three of the assessment area's low-income census tracts have very few families and households because two are predominantly industrial areas and one is a college campus.

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

According to the 1990 Census data, 41.4 percent of the 96,195 housing units in the bank's assessment area were owner-occupied, 43 percent were renter-occupied and 15.6 percent were vacant. The assessment area has mostly one- to four-family units followed by multifamily units. The median age of the housing stock in the assessment area is 20 years.

The five major types of industries in Hillsborough County in 1993 according to the U.S. Census Bureau are listed in the table below.

TYPE OF INDUSTRY	NUMBER OF EMPLOYEES	NUMBER OF ESTABLISHMENTS ¹
Services and Other	159,155	9,256
Retail Trade	76,811	5,286
Finance, Insurance, and Real Estate	40,469	2,525
Manufacturing	37,851	995
Wholesale Trade	34,884	2,449

The 1993 U.S. Census employment data for county business patterns shows a total of 23,512 business establishments in Hillsborough County. 22,091 (94 percent) of the establishments had fewer than 50 employees. The high percentage of businesses with fewer than 50 employees indicates potential market demand for small business loans. According to information from the Bureau of Labor Statistics, the July 1997 unemployment rate for Hillsborough County was 3.5 percent, which was lower than the 5 percent unemployment rate for the state.

Two community contacts were made in conjunction with this examination. Both contacts represented

¹The table shows a count of business establishments and not an actual count of firms. An establishment is categorized by its size, not by the size of the business that owns it. Information is collected during only one month (March) of each year.

The Terrace Bank of Florida
Temple Terrace, Florida
October 21, 1997

organizations offering opportunities for depository institutions to gain access to lending opportunities to small businesses located throughout the community, including low- and moderate-income areas. The two contacts noted opportunities for additional involvement by the community's smaller depository institutions.

Based

DESCRIPTION OF ASSESSMENT AREA (CONTINUED)

on the need for loans to small businesses in the community, this involvement includes assisting intermediary organizations and entrepreneurs with technical assistance and competing for business when sound lending opportunities are identified.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

Loan-to-Deposit Ratio

The Terrace Bank of Florida's loan-to-deposit ratio is reasonable and meets the standards for satisfactory performance. The bank's average loan-to-deposit ratio for the five quarters ended June 30, 1997, was 67.9 percent. This ratio is reasonable given the bank's lending capacity and is comparable to other depository institutions of similar size operating in the area. The bank's loan-to-deposit ratio was compared to the average loan-to-deposit ratios of seven banks of similar asset size with two to five offices in Hillsborough County. The Terrace Bank of Florida's average loan-to-deposit ratio compares favorably with these seven banks. The bank's individual average loan-to-deposit ratios during the same five quarters ranged from 32.8 percent to 76.5 percent.

Lending in Assessment Area

To evaluate the bank's performance, 47 small business loans originated from December 1996 through August 1997 were analyzed. The analysis was used to determine the percentage of loans within the assessment area, the pattern of lending to businesses of different sizes, and the geographic distribution of loans. The bank is primarily a business-purpose lender, with insufficient volume of any other product lines for a meaningful analysis.

The analysis revealed that of the 47 small business loans, 35 (74 percent) were extended to businesses inside the bank's assessment area. The percentage of the bank's lending inside the assessment area meets the standards for satisfactory performance.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Lending to Businesses of Different Sizes

Revenue information was available for 19 of the 35 small business loans in the assessment area. All 19 loans were to businesses with gross annual revenues of \$1 million or less, and eight of the loans were to businesses with revenues of less than \$250,000. 17 of the 19 loans to businesses with \$1 million or less in revenues were for loan amounts of \$100,000 or less. These results meet the standards for satisfactory performance.

Geographic Distribution of Loans

The following table summarizes the geographic distribution of the small business loans inside the assessment area. The percentage of loans to businesses in each income grouping of census tracts can be compared to the percentage of assessment area families residing in each census tract group.

CENSUS TRACT TYPE	BUSINESS LOANS		PERCENTAGE OF FAMILIES IN EACH CENSUS TRACT GROUP
	#	%	
Low-income	0	0%	10.3%
Moderate-Income	10	29%	28.0%
Middle-Income	11	31%	36.8%
Upper-Income	14	40%	24.9%
Total	35	100%	100.0%

The table shows that, except for the lack of lending to businesses located in low-income tracts, the geographic distribution of small business loans generally reflects the demographic makeup of the assessment area's census tracts. The lack of loans in the low-income census tracts raises concerns about the trend of The Terrace Bank of Florida's overall performance in meeting the community's credit needs, including low- and moderate-income areas. These results do not meet standards for satisfactory performance in geographic distribution. A detailed review of the loans represented in the table above revealed that 6 of the 14 loans in the upper-income census tracts were to a single partnership entity that develops residential housing. The partnership includes a nonprofit developer located in an upper-income census tract, but who has used some of the loans to acquire, rehabilitate, and finance for sale single-family

The Terrace Bank of Florida
Temple Terrace, Florida
October 21, 1997

homes located in both low- and

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (CONTINUED)

Geographic Distribution of Loans (Continued)

moderate-income census tracts. Though each loan to the developer might have been extended relative to a specific housing unit, the examination efforts to identify these individual loans with specific locations in the assessment area were not conclusive.

Complaints

No complaints relating to CRA performance have been filed against the bank since the previous examination.

Compliance with Antidiscrimination Laws

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations. No evidence of discrimination or illegal credit practices was noted during the review of bank policies and procedures. No practices were noted with the intent or effect of discouraging applicants for credit.